

March 15, 2004

To the Institution Addressed:

Re: Revision to the Policy to Establish Accounting and Auditing Standards
Pursuant to IC 28-13-10-8

The Members of the Department of Financial Institutions (Department) approved a revision to the Policy to Establish Accounting and Auditing Standards pursuant to IC 28-13-10-8 on February 12, 2004. The revised policy requires annual external audits for all financial institutions supervised by the Department. Recent events such as the passage of the Sarbanes-Oxley Act of 2002 dealing with corporate governance, internal and external auditing procedures, and financial disclosures resulted in a thorough review of the appropriateness of the Department's prior policy which was adopted on July 1, 1992.

The policy revision process included input from CPA firms, trade associations, and financial institutions subject to the Department's supervision. We are providing you with a copy of the revised policy. The substantive revisions to the July 1, 1992, policy are as follows:

1. A Restricted Scope Balance Sheet Audit no longer requires the performance of "specified" audit procedures. The requirement that the audit be performed in accordance with generally accepted auditing standards eliminates the need for a specific listing of required audit procedures.
2. A Restricted Scope Balance Sheet Audit now requires the issuance of an "except for" opinion. A "disclaimer of opinion" is no longer considered acceptable to satisfy the requirements of this option.
3. The policy adopts the applicable federal agency guidance, by reference, which addresses corporate governance, outsourcing of the internal audit process, and the applicability of the provisions of Sarbanes-Oxley to non-public institutions.

Any questions regarding this new policy should be directed to Deputy Director, James Cooper or Bank Division Supervisor, Randall Rowe at 317/232-3955. You may also access the policy at our website.

Sincerely,

Charles W. Phillips, Director
Indiana Department of Financial Institutions

CWP/bjc
Enclosure/Revised Audit Policy